2.1 CONSTRUCTION ACTIVITIES OF ORISSA STATE POLICE HOUSING AND WELFARE CORPORATION LIMITED

Highlights

Orissa State Police Housing and Welfare Corporation Limited, incorporated in May 1980, mainly to execute housing schemes for Police, Vigilance and Fire Service Departments of Government of Orissa as well as Government of India. No action plans were prepared for utilisation of funds as a result the Company executed works valued at Rs.91.65 crore only against Rs.191.59 crore, received for implementation of various housing schemes during the five years ending 31 March 2005.

(Paragraphs 2.1.1, 2.1.7 and 2.1.9)

Delay in execution of projects deprived the Company of Central assistance/ funds from Government of India amounting to Rs.48.62 crore while execution of the projects not in the Action Plan entailed a loss of Rs.1.16 crore.

(Paragraphs 2.1.10 and 2.1.12)

The Company undertook the deposit works of Utkal University without receipt of funds which led to non-realisation of Rs.1.76 crore.

(Paragraph 2.1.17)

Payment of higher rates to job workers and incurring excess expenditure on external electrification works resulted in loss of Rs.2.16 crore.

(Paragraphs 2.1.20 and 2.1.21)

Introduction

2.1.1 Orissa State Police Housing and Welfare Corporation Limited was incorporated in May 1980 as a wholly owned State Government Company with the main objective of:

- formulating and executing housing schemes for both residential and non-residential purposes for the Police, Vigilance and Fire Service Departments of Government of Orissa (GoO) as well as Government of India (GoI);
- taking up construction, repair, maintenance, modification and renovation of roads, buildings and other civil structures through competitive tender or on the basis of direct placement of works.

In pursuance of the objectives, the Company had undertaken allotted works of the GoO since inception and deposit works of State Universities and other bodies since 1989.

The Management of the Company vests in a Board of Directors consisting of nine Directors including the Chairman-cum-Managing Director (CMD). The CMD, being the Chief Executive of the Company, was assisted by General Manager (Engineering), Financial Advisor, Company Secretary-cum-Manager (Finance), Manager (Administration), four Deputy Project Managers (DPM) at Head office and eight DPMs for execution of work at eight zones. The post of General Manager (Engineering) was upgraded to Chief Engineer (Civil) with effect from February 2004. The post has been lying vacant since December 2004.

Scope of Audit

2.1.2 The working of the Company was last reviewed and the results were commented upon in the Report of the Comptroller and Auditor General of India (Commercial) for the year ending 31 March 1992, Government of Orissa.

The present review conducted during September 2004 to December 2004 and February 2005 to March 2005 covers the construction activities of the Company for the five years ending 31 March 2005.

2.1.3 Audit findings as a result of review on the performance and working of the Company were reported to Management/Government in May 2005 with a specific request to attend the meeting of Audit Review Committee for State Public Sector Enterprises (ARCPSE) so that the view point of Management/Government was taken into account before finalising the review. The meeting of ARCPSE was held on 15 July 2005 and attended by the

Chairman-cum-Managing Director of the Company and Additional Secretary, Home Department, Government of Orissa. The views expressed by the members have been taken into account during finalisation of the review.

Audit Objectives

2.1.4 Performance audit of construction activities of the Company was conducted with a view to assess whether the Company executed different categories of works undertaken by it economically, efficiently and effectively.

The achievement of the Company in implementation of the construction of buildings under various schemes was examined during Audit. Audit analysed the matters like preparation of estimates, selection of job workers, procurement of material by the Company, etc. Internal Control system of the Company relating to cash and inventories, maintenance of records and the matters connected with the construction activities were also examined.

Audit criteria

2.1.5 The main audit objective being to verify whether the different categories of works have been executed on schedule and within the estimated cost, Audit adopted the following criteria with a view to see whether:

- estimates of works were prepared by adopting Current Schedule of Rate (CSR) ;
- materials were procured and contractors were selected by adopting the tender system;
- the provisions of the Orissa Public Works Department (OPWD) Code of the Works Department of Government of Orissa were considered for works/activities where no other provision was applicable;
- the decisions of the Board of Directors, circulars and office orders of the Chief Executive as well as other Executives, instructions of the GoO and GoI were considered by the Company while executing the projects/works.

Audit Methodology

2.1.6 Audit examined the records maintained at the corporate office as well as at all eight zonal offices. The correspondence made with GoO and GoI and other allottees of works, instructions issued from corporate office, Monthly Progress Reports containing up to date activities of the Company relating to different categories of works under various schemes were also examined during Audit for the purpose of collection of data and gathering evidence.

Audit Findings

Financial management of works

2.1.7 During the five years ending 31 March 2005, the Company executed allotted works (all by GoO) and deposit works valued at Rs.91.65 crore only as against receipt of funds worth Rs.191.59 crore. The schemes of the works, being undertaken by the Company, stipulate the completion of projects and utilisation of the funds within the year of their receipt.

The year-wise receipt and expenditure of funds by the Company for the last five years ending 2004-05 were as follows:

Year	Opening Balance	Receipt during the year	Total Funds	Expenditure during the year	Closing Balance	Percentage of expenditure to funds
	(Rupees in crore)					
2000-01	2.64	3.95	6.59	5.03	1.56	76
2001-02	1.56	16.90	18.46	7.22	11.24	39
2002-03	11.24	20.77	32.01	12.81	19.20	40
2003-04	19.20	60.97	80.17	27.39	52.78	34
2004-05	52.78	89.00	141.78	39.20	102.58	28
Total		**191.59**		**91.65**		

It would be observed from the above table that the percentage of expenditure to total funds ranged from 28 to 40 except in 2000-01. The poor utilisation of funds was due to non-execution of works by the Company within the time schedule, delay in execution by job workers and engagement of same job workers for different works at the same time. Audit also observed that the Company was not preparing working plan for utilisation of funds as per budget.

The Management/Government stated (July/August 2005) that funds of Rs.32.93 crore were received in the last quarter of 2004-05. Further, quality, safety and durability of the buildings were given more importance while executing the works. It was also stated that the works were executed as per work plan and reviewed from time to time at management and Government level.

The fact, however, remains that execution of projects was not done in time and works valued at Rs.102.58 crore were pending for completion as on 31 March 2005.

Execution of works

2.1.8 In respect of works allotted by GoO, the Company prepared the drawings, designs and estimates, etc. and submitted the same to the Technical Committee (TC) constituted by the GoO for according Technical Sanction (TS). Consequent upon the abolition of TC (November 2004), the TS was to be accorded by the Chief Engineer of the Company. The estimates were then sent to GoO for obtaining Administrative Approval (AA).

The post of Chief Engineer (CE) was lying vacant since December 2004. The Manager (Administration) of the Company though being non-technical, was entrusted in June 2005 the charge of the CE with power to sign the estimates. In absence of CE (Civil), no technical sanction was accorded for taking up the works from December 2004. Audit noticed that 116 works approved by CE (Civil) in November 2004 were submitted to Government after a delay of one month to four months for Administrative Approval.

In respect of Deposit Works, the clients are required to deposit the necessary funds before taking up works by the Company. The Company, thereafter, issues work order to the Zonal DPMs for execution of works of different categories.

Allotted Works

2.1.9 The Company had undertaken works mainly under the three categories viz. Modernisation Grants (MG), Centrally Sponsored Non-plan Scheme (CSNPS) for Prison Reforms and Eleventh Finance Commission Awards.

The works were executed either departmentally by engaging labourers or through job workers (i.e. contractors) under supervision of Company's technical staff. Scheme-wise details of works undertaken, completed and works in progress during the currency of each scheme from beginning of the respective schemes till end of 2004-05 were as under:

	Year	Spill over from previous year	No. of works undertaken during the year	Total	No. of works completed	Spill over to next year
A	**Modernisation Grants**					
	2000-01*	0	368	368	317	51
	2001-02	51	110	161	46	115
	2002-03	115	40	155	6	149
	2003-04	149	84	233	0	233
	2004-05	233	58	291	0	291

* Being the first year of respective schemes.

	Year	Spill over from previous year	No. of works undertaken during the year	Total	No. of works completed	Spill over to next year
B	**Centrally Sponsored Non-plan Scheme**					
	2002-03*	0	62	62	12	50
	2003-04	50	93	143	5	138
	2004-05	138	88	226	0	226
C	**Eleventh Finance Commission Award Works**					
	2000-01*	0	95	95	93	2
	2001-02	2	61	63	55	8
	2002-03	8	89	97	72	25
	2003-04	25	27	52	24	28

The Company did not prepare any scheme-wise action plan of its own. The scheme-wise lapses of the Company noticed in Audit are discussed in succeeding paragraphs.

Modernisation Grants (MG)

2.1.10 The GoI approved (February 2001) a five year perspective Action Plan of GoO on Modernisation of Police Force (MPF) from 2000-01 to 2004-05. GoO was to receive 50 per cent of the expenditure as central assistance up to 2002-03 and 60 per cent thereafter. The MG assistance was to be utilised during the year of receipt against the specified projects. Any diversion of funds without approval of GoI would result in corresponding reduction in allocation for the next year.

The Company could not utilise funds of Rs.25.81 crore out of Rs.100.37 crore.

The status of the funds released for each project and the details of year-wise amount received, projects allotted, projects completed and unutilised balance with the Company for five years from 2000-01 to 2004-05 are summarised in **Annexure-9**. It would be seen from the Annexure that funds of Rs.25.81 crore out of Rs.100.37 crore remained unutilised as on 31 March 2005.

In this regard, following also deserve mention:

- In respect of execution of non-residential works relating to 2000-01, the Company issued (July/August 2001) work orders for 121 Out Post (OP) and 142 Restroom-cum-Toilet (RT) buildings to be completed within four months. Five buildings only were completed in time and three buildings (RT) were lying incomplete (July 2005) excluding two buildings blown up by naxalities. Other 255 buildings were completed with delays ranging from one month to 43 months.

* Being the first year of respective schemes.

- In respect of works of Police Stations (PS), the Company issued work orders for 34 PS buildings in April/September 2002, to be completed within ten months. Only four building were completed in time and two were lying incomplete (July 2005). Others were completed with delays ranging from one month to 27 months.

- As regards residential works, the Company was entrusted (April 2002) with construction of 84 E type quarters at Third Orissa State Armed Police, Koraput at an estimated cost of Rs.3.91 crore pertaining to the year 2000-01 and 12 E type quarters at Sunabeda at an estimated cost of Rs.55.87 lakh pertaining to 2001-02. The Company issued work orders in November 2002 (84 E type) and April 2003 (12 E type) to the Deputy Project Managers (DPMs) for construction of the projects. The construction of the projects scheduled for completion within one year was still incomplete (July 2005). Audit scrutiny further revealed that against provision for normal brick foundation in the approved plan, the Company executed the work for frame structure on account of site condition without prior approval of the State Government. This deviation in structure resulted in expenditure of Rs.46.43 lakh beyond the approved cost which had to be borne by the Company. This indicated that the estimate was prepared without inspection of site.

  Management/ Government replied (July/ August 2005) that due to non-availability of kiln burnt bricks, frame structure was adopted for safety of the buildings. The reply is not acceptable as the Company should have obtained prior approval of the State Government.

Execution of projects not in Action Plan resulted in loss of Rs.1.16 crore.

- The Company had undertaken construction of 54 E type Residential buildings at 6* places during 2002-03 even though these were not included in the Action Plan for 2002-03. In spite of non-availability of Administrative Approval (AA) against these projects, the Company incurred expenditure of Rs.1.16 crore as on 31 March 2005. The State Government refused (November 2003) to release money against these projects which resulted in loss of Rs.1.16 crore to the Company.

  Management/Government replied (July/August 2005) that the execution of projects was taken up in anticipation of AA. The reply is not acceptable as the AA was not obtained as required under the laid down procedure.

Delay in execution of projects deprived the Company of Government of India assistance of Rs.41.72 crore.

- In five years' approved Action Plan there was provision of Rs.35.60 crore and Rs.37.63 crore for construction of buildings during 2002-03 and 2003-04 respectively. As against this, GoI actually considered (January 2005) projects for only Rs.8.34 crore and Rs.23.17 crore respectively on the ground that during the preceding two years (2000-01 and 2001-02) projects were not implemented in time by the Company. The delay in execution of the projects by the

* Bhubaneswar, Jagatsinghpur, Malkanagiri, Nayagarh, Nuapada and Rayagada.

Company, thus, caused reduction in receipt of funds from GoI. The expected benefit could also not be achieved due to non-implementation of the scheme fully.

- Though the Management was aware (May 2002) of the fact that delay in execution of work was due to slow progress of work by the job workers and engagement of same job workers for different works, no remedial measure was taken for completion of works in time. Since the Company did not prepare action plan or flow chart for execution of the works, the stage-wise deviation in this regard could not be analysed in audit.

  Management/Government stated (July/August 2005) that at least 8 to 12 months were normally required for completion of projects. Further, the Company was executing projects in naxalite prone areas and inaccessible areas with various problems and difficulties. The reply is not tenable since out of 666 projects (306 incomplete and 360 completed with delay) only 88 projects were in difficult areas. The fact remains that the Company could not complete in time even those projects which were not situated in difficult areas.

State Police Academy (SPA)

Failure to obtain Administrative Approval on the revised estimate resulted in loss of Rs.27.92 lakh.

2.1.11 For construction of boundary wall, approach road and site development at the SPA complex, Bhubaneswar, the Company submitted (January 2002) estimates amounting to Rs.42.44 lakh to the Police authorities. Home Department accorded (May 2002) AA for Rs.42.08 lakh. The Company issued work order to DPM, Puri for execution of the work within the approved cost of Rs.42.08 lakh. The DPM, Puri intimated (January 2003) the Head Office the need for revising the estimate of the said project for Rs.7.57 crore due to certain additional items of work. Though the proposed revised estimates were at huge variance to the approved cost estimates, the Company did not send the same to the Police authorities for AA so far (March 2005). The Company, meanwhile, spent Rs.70 lakh (up to March 2005) for construction of the boundary wall, etc. thereby exceeding the approved cost estimates by Rs.27.92 lakh. As the Home Department of GoO had clearly specified (December 2001) that no further amount under MG would be available above the AA amount, there was least likelihood of receipt of excess funds incurred. The work relating to boundary wall, approach road, etc. also remained incomplete due to non-revision of estimate.

Centrally Sponsored Non-Plan Scheme for Prison Reforms

2.1.12 The GoI introduced (November 2002) a Non Plan Scheme for Prison Reforms viz. construction of sub-jails with staff quarters, upgradation of sub-jails to the status of district jails, repair and renovation of existing jails, improvement of sanitation and water supply and living accommodation of prison staff. The scheme was to be implemented over a period of five years from 2002-03 to 2006-07 on cost sharing basis in the ratio of 75:25 between the Central and State Government respectively. The five year plan 2002-07 for Rs.107.40 crore with annual allocation of Rs.21.48 crore with effect from

2002-03 were approved (November 2002) by the State Level Empowered Committee (SLEC) and the Central Empowered Committee (February 2004).

The Central and GoO's share, out of the total amount of Rs.107.40 crore for the five years, was Rs.80.55 crore and Rs.26.85 crore respectively. Government of Orissa allotted works of Rs.19.62 crore (July 2003) for the year 2002-03, Rs.22.93 crore (June 2004) for the year 2003-04 and Rs.21.47 crore (October 2004) for the year 2004-05. The table below indicates the year-wise details of allotment of projects, receipt of funds and utilisation of funds, etc., for three years up to 2004-05.

Year	No. of Projects	Estimated cost	Funds received	No. of projects completed	Total expenditure incurred	Unspent balance
		(Rupees in crore)				
2002-03	62	19.62	19.62	12	17.27	2.35
2003-04	93	22.93	19.51	5	16.70	2.81
2004-05	88	21.47	11.59	0	11.22	0.37
Total	**243**	**64.02**	**50.72**	**17**	**45.19**	**5.53**

The GoO intimated (July 2003) the Company that a part of approved estimate cost would be released in advance and subsequent release of funds would be decided by mutual consultation. The GoO asked the Company (August 2003) to submit the plan and estimates for obtaining AA and go ahead with construction works pending AA. The GoO again directed (September 2003) the Company to complete the works of Rs.18.37 crore by March 2004 since land and required infrastructure were available with the Company. Accordingly, the Company issued (October 2003) work orders to the DPMs to commence the works immediately. The detailed cost estimates were, however, submitted by the Company only in March 2004.

Delay in execution of works deprived the Company of Government of India assistance of Rs.6.90 crore.

The GoI again reviewed (November 2004) the progress of the works under the scheme and on finding the progress unsatisfactory, indicated that mechanism for resuming the unutilised funds may be evolved if the progress continued to lag behind the schedule. GoI clarified (February 2005) to the GoO that balance central assistance for Rs.6.90 crore pertaining to the year 2004-05 would not be released. Audit observed the following:

- Out of 243 projects, work orders for 63 projects were issued (October 2003) to the DPMs with stipulation to complete within 12 to 18 months. Seventeen projects valued at Rs.0.85 crore were actually completed by the end of March 2005. Though the Company received Rs.49.37 crore against the balance 226 ongoing projects (estimated at Rs.63.17 crore) scheduled to be completed by March 2005, the expenditure incurred was only Rs.44.34 crore as of March 2005. Even work orders for 17 projects valued at Rs.8.94 crore pertaining to the year 2004-05 were not issued (March 2005).

- The execution of work was delayed due to delay in submission of estimates.

Eleventh Finance Commission Award

2.1.13 For upgradation of standards of administration and special problems, hundred per cent grants were to be released to the State under the Eleventh Finance Commission (EFC) scheme. The amount was to be spent as per the guidelines formulated (November 2000) by GoI.

In this connection, the following observations are made:

Fire Station buildings

Despite availability of fund, the Company could complete only 17 against 32 fire station buildings.

2.1.14 The Company was entrusted (June 2001) with the construction of 32 Fire Station (FS) buildings, which were to be completed by March 2004. The deadline for completion of work was further extended to March 2005. The Company received the entire estimated cost of Rs.5.86 crore between April 2002 and January 2004. The technical approval for the works was accorded in December 2001 (11), June 2002 (13) and July 2003 (8). Work orders were issued to the DPMs in April 2002 (11) July 2003 (21) with stipulation to complete the projects within 18 months from the date of work orders. Thus, all the FS buildings were to be completed latest by December 2004. At the end of 31 March 2005, only 17 FS buildings were completed and handed over to the user department.

Audit observed that the reasons for delay in projects were mainly due to:

- delay in preparation of estimates by 6 to 25 months as well as issue of work order to the DPMs for construction of 24 out of 32 FS buildings pertaining to the years 2000-01 and 2002-03.
- lack of co-ordination between the DPMs and field staff and delay in execution of works by the job workers.
- non-preparation of action plan by the DPMs.
- poor follow-up action by the Company.

Further, the estimates of 23 out of 32 projects had provision of Rs.4.46 lakh towards construction of approach road and site development. At the time of execution of the works, there was an upward revision of the estimated cost to Rs.40.85 lakh. The Company decided (January 2004) to bear the excess expenditure of Rs.36.39 lakh in public interest.

Fast Track Court

2.1.15 Eleventh Finance Commission Scheme (EFC) award envisaged (June 2001) establishment of 72 Fast Track Court (FTC) buildings in the State at an estimated cost of Rs.2.95 crore during the years 2000-04. The GoO entrusted execution of 59 works to the Company in October 2003/February 2004 (48) and in February/July 2004 (11) at finally approved estimated cost of Rs.4.17 crore. These works were to be completed by March 2005. Accordingly, the Company issued work orders to DPMs in November 2003

(42), March 2004 (8) and October 2004 (9) with instruction to complete the buildings within six months and latest by March 2005. Audit observed that the Company, despite specific assurance for completion of 40 FTC buildings by March 2004, could complete only 19 out of 59 FTC buildings; 40 FTC buildings remained incomplete (July 2005) even after expiry of deadline of March 2005.

Deposit Works

2.1.16 The Company undertook the building and other projects of the Universities and other bodies on deposit work basis from the year 1989 onwards. In case of deposit works, the Company was to execute the works only to the extent of deposits received from the clients. The Board of Directors of the Company directed (May 2001) not to execute the works in absence of advance deposits. In this regard following deserve mention:

Utkal University Works

The Company undertook the deposit works of Utkal University without receipt of funds which led to non-realisation of Rs.1.76 crore.

2.1.17 The Company undertook 12 deposit works of Rs.4.73 crore from Utkal University (UU) and six works of Directorate of Distance and Continuing Education (DDCE) of Rs.2.32 crore during 1999-2000 to 2004-05. The Company received Rs.2.14 crore and Rs.1.70 crore respectively being deposits towards the said works. The Company completed (July 2000 to May 2004) nine works of UU at a cost of Rs.2.75 crore and completed all works of DDCE at an expenditure of Rs.2.33 crore. The Company, however, was yet to recover an amount of Rs.1.24 crore (July 2005) against the above works in addition to previous unrecovered balance of Rs.52.32 lakh for the works executed during 1989 to 1999.

Audit observed that:

- the Company accepted the deposit works from UU in spite of the fact that a sum of Rs.52.32 lakh was outstanding against UU for the works executed up to 31 March 1999.
- the Company executed extra items of work for DDCE valued at Rs.26.93 lakh on verbal instruction of the client without receipt of deposit. The extra expenditure so incurred was pending for realisation (July 2005).
- the Company started the work of repair of seven hostels damaged in super cyclone (October 1999) without sanction of estimates and spent Rs.30.26 lakh against initial receipt of Rs.8.85 lakh. The balance amount of Rs.21.41 lakh was yet to be recovered (July 2005).

District Rural Development Agencies

2.1.18 The Company executed deposit works of District Rural Development Agencies (DRDA) in different districts and incurred expenditure in excess of the amount deposited by them to the extent of Rs.20.45 lakh on works in four districts. The works were though completed and final bills submitted between January 2000 and August 2003, the Company did not take up the matter with higher authorities for realisation of the dues.

Preparation of estimate

2.1.19 The Company did not have any Accounting Manual of its own (March 2005). A proposal was placed (April 1996) before the Board to adopt the procedure of the Orissa Bridge and Construction Corporation Limited* (OBCC). The Board of Directors, however, decided (April 1996) that the estimates should be prepared by taking into account the prevalent market rates. Audit observed that in the absence of any defined procedure for assessing the market rates, the Company had been submitting estimates of works on the basis of market rates as obtained by respective DPMs.

The State Government issued (March 1999) common directives to the Company and OBCC for preparing the estimates taking into account Current Schedule of Rate (CSR). Besides, the Company was entitled to 15 per cent Supervision Charges (SC) on works. The Company complied with the directive only in respect of works related to “Prison Reforms”. In other cases (viz. works relating to Modernisation Grants, etc.), the estimates were prepared strictly in accordance with the above directives.

Payment of higher wages

2.1.20 The Company supplied material and executed the works through the job workers at rates fixed by the Company. In respect of certain items like filling of sand, plastering work (12 mm and 16 mm), washing and painting of the walls rates were higher than the CSR. The payment at higher rate to job workers was met out of Supervision Charges (SC) of the Company. The amount of such excess payment was Rs.1.16 crore during the period of five years ending 2004-05.

Payment of higher rate to job workers than the CSR amounting to Rs.1.16 crore.

Adoption of lump sum provision for preparing estimates

2.1.21 Lump sum provisions for the works relating to external electrification had resulted in excess expenditure of Rs.1.41 crore on account of external electrification and escalation, etc. in executing the works relating to Ninth Finance Commission Grants. Keeping this aspect in view, the Board of Directors emphasised (December 2000) the need for preparation of estimate for external electrification on realistic basis.

The Company incurred excess expenditure on external electrification works resulting in loss of Rs.1 crore.

Audit scrutiny revealed that the Company made lump sum provisions for external electrification works relating to 57 projects executed during the five years ending March 2005. The Company incurred expenditure of Rs.1.49 crore against estimated cost of Rs.0.49 crore and suffered a loss of

* Another PSU of the State engaged in the construction activities.

Rs.1 crore. The Board of Directors decided (January 2004) to bear the excess expenditure on external electrification in the interest of public. After being pointed out by Audit, the Company claimed (February 2005) the differential cost of Rs.1 crore from the GoO, the decision thereon was, however, awaited (July 2005).

Undue benefit to contractors

2.1.22 Audit further observed that the Company awarded the work of external electrification of 46 projects out of 57 projects, during five years ending 2004-05 at an estimated cost of Rs.1.32 crore to eight contractors on the basis of estimates prepared by the four power distribution companies (DISTCOs). DISTCOs prepared estimates considering the current rates except CESCO* which worked out the estimates on the basis of rates for 1997-98 after allowing annual escalation of five per cent. This resulted in an extra benefit of Rs.16.96 lakh to the contractors on 20 projects. The Company did not take up the matter with CESCO.

Management/Government stated (July/August 2005) that CESCO prepared estimates based on rates of 1997-98 with five per cent escalation for subsequent years whereas other DISTCOs prepared estimates on the up to date rate and thereby the estimated costs of DISTCOs were at par.

The reply is not tenable in view of the fact that the rate charged by CESCO was higher than the rates charged by other DISTCOs.

Public Health (PH) works

2.1.23 The Board of Directors issued (December 2000) instruction for preparation of realistic estimates. The Company, however, makes lump sum provision against the external works relating to Public Health (PH) and water supply to the projects while preparing the detailed estimates for obtaining AA of the projects. Comparison of estimated cost with actual expenditure in respect of 25 projects revealed that in case of 21 projects, the actual expenditure was higher resulting in extra expenditure of Rs.19.36 lakh.

Management/Government, while accepting the facts, stated (July/August 2005) that the zonal DPMs had been instructed to minimise expenditure in other areas to accommodate project cost within the estimated provision.

Selection of Job Workers

2.1.24 The Company decided (September 1990) to adopt labour contract system for better and quicker execution of works. The Company, however, had not formalised any procedure for selection of contractors. The zonal DPMs, therefore, selected the job workers by adopting such procedure as were

* Central Electricity Supply Company of Orissa Limited – a power distribution company.

deemed fit by them. It was noticed that holding of valid contractor's licence, labour licence, Income Tax (IT) and Sales Tax (ST) clearance certificates, availability of manpower/machinery with the contractors were not verified before award of the work. Further, the Company did not enforce the terms of contract for realisation of penalty in the event of delay in execution of work.

Excess expenditure due to higher rate of labour payment

2.1.25 The Company decided (February 2003) for execution of boring of tubewells at Zonal level under the direct control and supervision of the DPM of respective zone by engaging locally available parties. The following deviations were noticed:

- Only in three, out of the eight zones, the concerned DPMs executed the work under their direct supervision and control.
- In five zones, the DPM (PH) at head office did not invite open tenders for selection of boring party from different zones.
- In three zones (Puri, Berhampur and Bhawanipatna), the concerned DPMs executed the boring of tube well depth of each metre with diameter of 5”X4” or 5”X4½”, 6”X4” or 6”X4½” and 8”X6” @ Rs.328, Rs.410 and Rs.690 respectively. The DPM (PH), however, executed works of boring of same diameter @ Rs.550, Rs.650 and Rs.950 in the same region. The Company, thus, incurred extra expenditure of Rs.11.15 lakh during October 2003 to February 2005 on 64 tube wells executed by DPM (PH).

The Management/Government stated (July/August 2005) that the difference in cost was due to soil condition and adoption of rotary method of drilling. The reply is not tenable since other zonal DPMs executed the works at the same locality at lower rates.

Procurement and Inventory Management

2.1.26 The Company had not been adopting the tender system till July 2003 in procurement of steel, cement and Public Health (PH) materials. The following irregularities on procurement of materials were noticed:

Purchase of steel- Non-execution of agreement with suppliers

2.1.27 The Company invited (July 2003) tenders for purchase of steel as per orders of CMD in June 2003. In response to the tender call notice, three parties[*] participated in which rates offered by IPISTEEL Limited (IL) were the lowest. The Company placed (September 2003) orders on IL for supply of steel to the Company for a period of one year at the rate of Rs.19,030 to Rs.20,600 per MT (including transportation charges) for different destinations

[*] IPISTEEL Limited, Aditya Steel Industries and Purvi Bharati Steel Limited.

but no agreement was executed with the party (IL) specifying the terms and conditions of supply.

Failure of the Company to enter into agreement with the supplier resulted in extra expenditure of Rs.41.39 lakh.

The rates of steel in the market increased substantially after January 2004. The supplier also increased its rate as the Company did not have any agreement. Thus, non-execution of agreement with IL resulted in extra expenditure of Rs.41.39 lakh during September 2003 to August 2004.

The Management/Government stated (July/August 2005) that the steel manufacturing companies normally do not enter into long term agreements like one year. The reply is not acceptable in view of the fact that the supplier had shown willingness for supplying steel at constant rate for the whole year.

Purchase of Public Health materials

2.1.28 The Head Office of the Company, based on tenders for purchase of Public Health (PH) materials, empanelled (September 2001) five suppliers for supply of PH materials for a period of one year only. The Company, however, did not resort to fresh tender process on expiry of this period and continued to purchase PH materials from the empanelled suppliers (March 2005) at the rates as increased from time to time.

DPM (PH) at Head Office was procuring PH materials and supplying to zonal DPMs. The CMD of the Company directed (November 2003) the zonal DPMs to purchase PH and electrical materials at their level as per the approved rate from reputed dealers. In violation of instruction of November 2003, Head Office continued the centralised procurements of PH material even without any indent from the zonal offices. The zonal DPMs were instructed by the CMD (February 2004) that PH material for on-going projects were available at Head Office which would be sent to them on demand. This led to unplanned purchase of PH materials by the DPM (PH) without inviting tender.

This resulted in blockage of PH materials for Rs.3.15 crore as detailed below:

Year	Opening balance	Purchased during the year	Consumption during the year	Closing Balance
	(Rupees in lakh)			
2000-01	3.25	30.08	25.72	7.61
2001-02	7.61	16.73	10.47	13.87
2002-03	13.87	53.50	51.50	15.87
2003-04	15.87	177.73	93.92	99.68
2004-05	99.68	229.08	13.96	314.80

From the above table, it would be seen that further purchases were made particularly during 2003-04 and 2004-05, though huge balances of PH material were available in the store.

The Management/Government stated (July/August 2005) that as the branded materials used by the Company were not available at all the work sites, bulk purchase was made at Head Office and the rates were revised considering the hike in market price. It was further stated that materials were procured as per site requirement and despatched to the respective sites, but adjustment was delayed due to non-return of challans from those sites. The fact, however, remains that the materials were not purchased through tender procedure and without any demand from the zones. Moreover, the adjustments were not based on proper documents.

Improper Accounting System

2.1.29 The Company has not yet prepared an accounting manual. Mention was made in Paragraph 2D.9 of the Report of the Comptroller and Auditor General of India (Commercial) for the year ended 31 March 1992 that:

- important records such as works registers, works abstract and contractors ledgers, etc. were not maintained by the Company;
- project-wise amounts advanced, expenditure incurred and balances were not worked out at zonal Offices;
- the Company did not maintain any record to ascertain the project-wise working results and profitability due to which the Company was unaware of the up to date expenditure in respect of each works till completion.

Such irregularities, however, still persisted in the Company.

Improper maintenance of Measurement Books (MB)

2.1.30 Payments for all works done and supplies received in respect of a work should be made on the basis of measurements recorded in the MB as per Appendix-II of the OPWD code. Audit noticed that provisions of OPWD code were not complied with in maintenance of MBs like watching of return of MBs by the Assistant Project Managers APMs/DPMs in the Register of MBs in the Head Office, maintenance of registers of MBs in the DPMs office, use of more than one MB relating to a particular work and filling the index in the MBs, etc.

Internal Control

2.1.31 The following Internal Control weaknesses were noticed in the system:

Budgeting

The Company's annual budget placed before the Board for approval contained huge variation between the budget estimates and actuals. Against approved capital expenditure of Rs.8.24 crore, Rs.19.56 crore, Rs.40.05 crore, Rs.42.77 crore and Rs.80.83 crore during the five years 2000-05, the actual expenditure was Rs.5.03 crore, Rs.7.22 crore, Rs.12.81 crore, Rs.27.39 crore and Rs.39.20 crore respectively. There was, however, no analysis of this variation.

Release of project advances

In the DPMs conference (December 2002), it was decided that no subsequent advance would be released to a specific project, unless previous advance was fully utilised or voucher furnished. Following instances of violation of these decisions were noticed.

- In one of the zones, Angul, one APM was sanctioned advance of Rs.36 lakh in the year 2003-04 even though the applications were neither forwarded by the concerned DPM nor the previous outstanding advances (Rs.7.91 lakh) adjusted before sanctioning further advances.

- DPM (PH) was sanctioned total advances of Rs.43.50 lakh in six occasions between August 2003 and September 2004, out of which Rs.30.83 lakh was adjusted against vouchers submitted, leaving a balance of Rs.12.67 lakh as on March 2005. Though the stipulation was to submit the paid vouchers within three months, the same was not followed and further advances were released without watching the adjustment of earlier advances.

- DPM (PH) withdrew up to Rs.3 lakh in a day through self cheques and on certain occasions even without taking the amount to the Cash Book maintained by him. Management neither insisted for timely submission of vouchers in support of utilisation of advances nor recovered the outstanding amount.

Other lapses

- Neither cases involving finance nor the running and final bills of job workers, etc. passed through the Financial Advisor violating Government instruction of July 1994. The bills of the job workers and bills against works expenditure incurred by the DPMs were not checked independently by any other technical person since October 2003 after relief of General Manager (Engineering).

- The physical progress report (indicating completion of work up to certain level) was not based on check measurement.

- The Zonal DPMs did not submit the accounts of the projects to Head Office even after four years of their completion though they were required to render accounts after one month of the completion of the work.

- No purchase committee was formed. Data base of rates of steel and other materials of various manufacturers were not maintained.

- The Company did not physically verify the stock and stores available in different stores during the period under review.

Conclusion

The Company, incorporated to execute housing schemes for police authorities of GoO and GoI, could not fulfill its objectives as it could not obtain any work through competitive tender during the period of review and had to restrict itself to execution of works allotted by GoO and deposit works of Universities as well as DRDA.

The Company delayed the completion of projects and could utilise only 28 to 40 per cent of funds received during the last four years ending 31 March 2005, which was caused due to absence of a working plan, slow progress of works by job workers and shortage of field supervisory staff. Deviations from the approved estimates/plans, execution of works without Administrative Approval and receipt of funds as well as increasing the capital cost of the works beyond the approved scope of work led to avoidable expenditure. Project accounts were not finalised in time after completion of projects. The accounting system and maintenance of Measurement Books as well as other records were found to be deficient. The Company's internal control systems in areas like budgetary control, checking of work bills and inventory management were weak.

Recommendations

- **The Company should try to obtain works through participation in tenders instead of depending on allotted or deposit works of Government.**
- **The Company should prepare Annual Action Plans to ensure optimum utilisation of funds and achievement of targets.**
- **The post of Chief Engineer (Civil) needs to be filled up for obtaining timely Technical Sanction of the works to ensure its timely completion.**
- **The Company should strictly follow the State Government's directives for preparation of estimates of works.**
- **The Company should execute works only after obtaining Administrative Approval and receipt of funds in respect of deposit works.**
- **System of execution of projects with maintenance of proper records needs to be strengthened.**
- **Project accounts need to be closed expeditiously on completion of the projects.**
- **Internal Control Systems particularly budgetary control, cash and inventory management are weak and needs to be toned up.**

2.2 PROCUREMENT AND DISTRIBUTION OF RICE BY ORISSA STATE CIVIL SUPPLIES CORPORATION LIMITED.

Highlights

Orissa State Civil Supplies Corporation Limited set up to ensure availability of subsidised rice under different schemes could not fulfil its objectives as distribution of allotted stock to the beneficiaries within the same month was not ensured. Audit further observed that:

- **allotment of rice under different schemes was not realistic in view of low lifting and off-take;**
- **the Company failed to surrender the excess quota allotted; and**
- **beneficiaries were deprived of the benefit of the scheme.**

(Paragraphs 2.2.1. 2.2.8 and 2.2.11)

The Company failed to analyse the persistence low off take of rice under BPL specially subsidised and BPL scheme. Further the reasons for low off-take were not ascertained even when the open market rate of rice was higher.

(Paragraph 2.2.10)

The Company lifted BPL rice costing Rs.34.90 crore on the last day of the month and in the next month which defeated the objective of distribution of stock in the same month.

(Paragraph 2.2.11)

There were instances of excess lifting and distribution of rice costing Rs.3.37 crore due to non-reduction of AAY cards from the BPL card strength and not accounting for death and migration cases.

(Paragraphs 2.2.12 and 2.2.13)

Improper maintenance of accounts at district offices and submission of incorrect monthly returns led to non-settlement in release of subsidy claims of Rs.118.19 crore up to March 2001 by State Government.

(Paragraph 2.2.19)

Introduction

2.2.1 Orissa State Civil Supplies Corporation Limited (OSCSC) was incorporated in September 1980 as a wholly owned Government Company, with the object of procurement and distribution of rice and other essential commodities so as to ensure their availability to the beneficiaries at reasonable prices. The State Government has entrusted the Public Distribution of rice to the Company.

The activities presently undertaken by the Company inter alia are:

- Procurement of rice and wheat from Food Corporation of India (FCI) and distribution thereof to retail fair price shops through Storage Agents (SA).
- Procurement of paddy under Decentralised Procurement Scheme (DPS) and supply of custom milled rice direct to Public Distribution System (PDS) channel.
- Distribution of essential commodities through Model Fair Price Shops (MFPS) and Mobile Vans (MV).
- Direct procurement of levy sugar from millers and distribution to retail Fair Price Shop (FPS) through Storage Agents.
- Distribution of LPG gas.
- Construction and operation of godowns out of financial assistance from GoI in form of loans/subsidy at 50:50 ratio.

Managing Director is the Chief Executive of the Company who is assisted by the General Manager (PDS) in overall management of lifting and distribution of rice under different schemes. At the district level (30 revenue districts), distribution of rice is carried out by the Civil Supplies Officer-cum-District Manager (CSO-cum-DM).

Scope of Audit

2.2.2 A review on PDS covering the period from 1992-93 to 1998-99 was included in the Report of the Comptroller and Auditor General of India for the year 1998-99 (Civil)-Government of Orissa. The review has not been discussed by Public Accounts Committee as yet (October 2005).

In the present review, the activities of the Company covering transactions relating to procurement and distribution of rice at Head Office and in 10* out of 30 district offices of the Company for the period from 2000-01 to 2004-05 were reviewed during January to May 2005.

2.2.3 Audit findings as a result of review on the performance and working of the Company were reported to Management/Government in June 2005 and at the specific request of Audit the Audit Review Committee for State Public Sector Enterprises (ARCPSE) was held on 14 July 2005 and attended by the Managing Director of the Company and Financial Advisor and Chief Accounts Officer, Food Supplies and Consumer Welfare Department, Government of Orissa. The views expressed by the members have been taken into account during finalisation of the review.

Audit Objectives

2.2.4 The performance audit of procurement and distribution of rice under Public Distribution/Targeted Public Distribution system was conducted with a view to ascertain whether:

- procurement of rice from FCI and distribution to Retail Fair Price Shops was done economically, efficiently and effectively;
- procurement of paddy under Decentralised Procurement Scheme (DPS) introduced from Khariff Marketing Season (KMS)** 2003-04 has achieved the objectives;
- the Company has a system of quality control for quality assurance of the rice distributed by it; and
- internal control and accountability within the Company provided sufficient assurance for safeguarding the financial interest of the organisation.

Audit Criteria

2.2.5 The audit criteria considered for assessing the achievement of audit objectives were to ensure whether:

- Rice was procured and distributed as per instructions of Government.
- Intended benefits to the farmers were ensured under DPS for procurement of paddy.

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* Balasore, Bhadrak, Bolangir, Cuttack, Deogarh, Gajapati, Ganjam, Keonjhar, Mayurbhanj and Sundergarh.
** October to September.

- Quality control measures were apt, adequate and properly implemented/executed.

- Internal control measures in respect of verification of stock at different points and control of cash etc., were in vogue and effective.

Audit Methodology

2.2.6 The audit examined the methodology adopted in the implementation of the schemes and collected data/evidence on allotment, lifting[*] and off-take[**] of rice under different schemes and on other related matters. The minutes and agenda papers of meetings of Board of Directors for the period under audit, the guidelines issued for different schemes, records relating to allotment of rice were studied and monthly stock returns, minutes of monthly conference of DM-cum-CSO were examined.

Audit Findings

Audit observations on the basis of audit scrutiny of procurement and distribution of rice and other related matters are discussed in succeeding paragraphs.

Process of procurement and distribution of rice

2.2.7 Government of India (GoI) allot every month rice stock to Government of Orissa (GoO) under Public Distribution System (PDS). The allotment is made for PDS under different schemes on the basis of the total number of beneficiaries identified by the State Government under Above Poverty Line (APL) and Below Poverty Line (BPL). The Regional office of Food Corporation of India (FCI), Orissa makes available stock (except Custom Milled rice under DPS) to the State Government. The State Government through Food Supplies and Consumer Welfare (FS & CW) Department, in turn, makes district-wise re-allocation of GoI allotment, on the basis of ration cards issued to the beneficiaries of the districts.

The Company through District Managers deposits the cost of rice with the FCI and obtains Release Orders (RO). The Storage Agents (SAs) appointed by the Company deposit the cost of rice (excluding SAs and Retailers margin from consumer price) with the Company and obtain Delivery Orders (DO) for lifting the stock against the RO of FCI. The District Collectors appoint the private persons, Non-Governmental Organisations (NGOs), Government agencies or Gram Panchayats (GP) to run the retail outlets. The retailers lift the stock from the SAs for distribution to consumers.

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[*] Indicates lifting of stock by Storage Agents from FCI.
[**] Indicates lifting of stock by retailers from Storage Agents.

The retailer wise allotment is made by Block Development Officer (BDO) in rural areas and by Executive Officer (EO) in urban areas taking into account the number of ration cards under various schemes (APL, BPL, Antyodaya Anna Yojana (AAY) and Annapurna).

Distribution of rice

2.2.8 The State Government fixes the consumer price and scale of ration under Public Distribution System (PDS) and Targeted Public Distribution System (TPDS)[*]. The enhancement in monthly ration or consumer price is decided by State Government in line with the instructions issued by Government of India from time to time.

The position of allotment, lifting and off-take of rice under all the schemes for the five years ended 31 March 2005 is shown in **Annexure-10**. It would be observed from the Annexure that off-take of rice under all the schemes was less than allotment ranging between 1 and 97 per cent except Annapurna (where there is marginal excess in three out of five years). Audit observed that the State Government had given combined allocation for BPL rice and BPL specially subsidised rice without segregation from 2003-04 and as a result the off-take percentage under the two schemes could not be ascertained individually.

Audit further observed that:

- allotment of rice under different schemes was not realistic in view of low lifting and off-take;
- the Company failed to surrender the excess quota allotted; and
- beneficiaries were deprived of the benefits of the schemes.

The Scheme wise analysis of procurement and distribution of rice is discussed in the succeeding paragraphs.

BPL Scheme

2.2.9 GoI introduced the Targeted Public Distribution System (TPDS) in June 1997 under which rice at subsidised rates is being supplied to the identified families living below poverty line. The State Government with a view to streamline the scheme instructed (February 2001) all the CSO-cum-DMs to lift and distribute the stock starting from first week of the month and complete distribution by end of the month.

[*] Streamlining and restructuring the PDS with the provision of subsidised rice to the poor.

Low lifting and off-take of rice

2.2.10 During 2000-01 to 2002-03 the shortfall in off-take ranged from 1 to 52 (six districts*) per cent and 11 to 99.90 per cent (10 districts) of allotment in case of BPL specially subsidised and BPL rice. In 2003-04 and 2004-05, the shortfall varied from 24 to 68 per cent and 5 to 41 per cent respectively of combined allotment. Audit observed the following:

- District Managers did not attempt to ascertain the reason for low off-take even when the open market rate of rice was more than the rate of rice issued under BPL schemes between April 2002 and March 2005 in Bhadrak and Balasore districts.

The Company had not ascertained the reason for persistent low off-take of rice under BPL Scheme and BPL Specially Subsidised Scheme.

- The Company brought to the notice (September 2001) of State Government the directives of Central Government calling for complete distribution of allotted stock and requested to verify the low demand and focus PDS accordingly. The State Government, however, did not take any action in this regard. Further, the Company also failed to pursue the matter with State Government.

- MIS report of Gajapati District revealed that 69 Gram Panchayats working as retail outlets had not at all lifted the allotted monthly quota during January 2003 to March 2005; thus depriving the benefits of the Scheme to the beneficiaries.

Delay in lifting

Lifting of BPL rice costing Rs.34.90 crore on the last day of the month and in the next month defeated the objective of distribution of stock in the same month.

2.2.11 The monthly distribution/allotment are to be made in such time frame so that the Company starts distribution to retail FPS in the first week of the allotted month and distribution to the beneficiaries is done during the month. Audit observed that in nine districts**, 11 to 94 per cent of total monthly lifting was made in second fortnight of the month of allotment during 2000-01 to 2004-05. Further analysis revealed that the storage agents lifted 31,067 MT of BPL rice stock costing Rs.19.57 crore on the last day of the month in these districts; 24,339 MT of rice costing Rs.15.33 crore was lifted even in the next month. Certificates of distribution of such stock, costing Rs.34.90 crore, to the beneficiaries during the month itself were not made available to audit. Thus, the very objective of distribution of stock in the same month was not achieved.

Excess lifting of BPL Rice

2.2.12 Despite low off-take of BPL rice, instances of excess lifting and distribution of rice resulting in claim of excess subsidy were noticed. A few cases are discussed as follows.

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* Balasore, Bolangir, Gajapati, Keonjhar, Mayurbhanj and Sundergarh.
** Balasore, Bhadrak, Bolangir, Cuttack, Deogarh, Gajapati, Ganjam, Keonjhar and Mayurbhanj

Non-reduction of BPL card strength to the extent of cards issued out of it to AAY beneficiaries led to excess allotment/lifting of rice costing Rs.1.39 crore.

- Records of CSO-cum-DM of four districts[*] revealed that State Government had allotted BPL rice against 4,43,524 cards though the actual card holders were 3,92,363, after excluding the beneficiaries under Antyodaya Anna Yojana (AAY). This resulted in excess allotment and consequent excess lifting of 2,214.094 MT of specially subsidised BPL rice costing Rs.1.39 crore during the period from September to December 2001. The subsidy claim on the excess quantity lifted under BPL scheme worked out to Rs.33.87 lakh. In reply, the CSO-cum-DM (Keonjhar) stated (February 2005) that the stock had already been passed on to the ultimate consumers and utilisation certificates of the stock lifted and distributed were sent to the Corporate Office. The reply is not acceptable in view of the fact that the distribution was in excess of the requirement; further whether the excess stock lifted was distributed to the entitled consumers could not be vouchsafed in audit.

- In Sundergarh District, as against 1,73,115 BPL beneficiaries identified in Integrated Tribal Development Programme blocks, the actual cards in circulation were 1,70,347. The balance 2,768 cards were not distributed to the beneficiaries. Audit noticed that during April 2002 to March 2004 the State Government allotted rice on the basis of BPL beneficiaries identified without considering the cards in circulation. This resulted in excess allotment/lifting of 737.544 MT of rice costing Rs.46.46 lakh[**] and the subsidy element on such excess quantity was Rs.11.28 lakh.

Excess lifting and distribution of rice costing Rs.26.80 lakh due to issue of stock to non-entitled BPL card holders.

- Lephripada Block (Sundergarh district) had been receiving allotment of 2,257 quintals of rice every month against the actual requirement of 2,119.75 quintals. The excess allotment of 137.25 quintals was being lifted and distributed each month to old BPL card holders who were not entitled for BPL rice on issue of new series of cards. The excess lifting and distribution of rice during the period September 2002 to March 2005 was 4,254.75 quintals costing Rs.26.80 lakh (@ Rs.630 per quintal).

In ARCPSE meeting (14 July 2005), the Management while accepting the audit observations stated that the matter would be looked into.

Antyodaya Anna Yojana (AAY)

2.2.13 Antyodaya Anna Yojana (AAY) was launched on 25 December 2000 by Government of India to ensure food security to poorest of the poor. The State Government implemented the scheme with effect from September 2001. The scheme initially covered 5,05,500 poorest of the poor BPL families of the State and was later extended to 4,90,549 more beneficiary families by 31 March 2005 in pursuance to Government of India decision (June 2003).

[*] Balasore, Gajapati, Keonjhar and Sundergarh
[**] Total excess lifting was 737.544 MT @ Rs.6300 per MT.

The Company issued (March 2005) 4,84,545 ration cards under expanded AAY scheme. Thus, 6004 beneficiaries remained deprived of the benefit. Audit observed that:

Complete distribution of allotted stock to the AAY beneficiaries was not ensured due to lifting of rice stock on last day of the month.

- In six districts[*] 9 to 84 per cent of stock was lifted in the second fortnight during the period 2002-03 to 2004-05; of these, two districts (Bhadrak and Balasore) lifted 1,447.470 MT of rice costing Rs.50.66 lakh on the last day of the month. Thus, complete distribution of allotted stock to beneficiaries within the same month was not ensured.

- In three districts,[**] release orders from FCI were also obtained in second fortnight during 2003-04 and 2004-05 and delivery orders were issued at the fag end of the month. Thus, the process of distribution was delayed and timely availability of rice to the poorest beneficiaries could not be made.

Excess off-take of rice costing Rs.1.98 crore as cases of death and migration of beneficiaries were not taken into account while lifting stock.

- District Collector of each district sends every month MIS data to State Government showing the number of beneficiaries not lifting the entitled ration during the month on the ground of death and migration. Audit scrutiny of records of seven districts[***] revealed that the cases of death and migration of 57,433 beneficiaries as reported in MIS data were not taken into account while going for lifting the stock under the scheme during January 2003 to March 2005. This resulted in excess off-take of 3,147.22 MT of rice costing Rs.1.98 crore.

Beneficiaries were deprived of entitled ration as rice stock was not lifted against deposit of cost with FCI.

- The Company made financial arrangements with FCI for lifting 41,739.13 MT of rice allotted for three months (January to March 2005) under expanded AAY. Against this, 20,691.225 MT of rice was lifted by 31 March 2005. Five district offices[****] had not lifted any stock under the scheme (April 2005), thereby 58,855 beneficiaries were deprived of the entitled ration.

Procurement of Paddy under Decentralised Procurement Scheme

2.2.14 The State Government introduced (October 2003) the Decentralised Procurement Scheme (DPS) effective from Khariff Marketing Season (KMS) 2003-04. Under DPS, the Company started purchase of paddy directly from the farmers and supplied Custom Milled (CM) rice at determined output ratio in PDS channel through Storage Agents and retail outlets. Processed paddy was not delivered to FCI. The Scheme aimed at ensuring Minimum Support Price (MSP) to the farmers so that the farmers would not go for distress sale[*****]. In the execution of Scheme, following irregularities were noticed in audit:

[*] Balasore, Bhadrak, Bolangir, Gajapati, Ganjam and Keonjhar.
[**] Bolangir, Ganjam and Keonjhar.
[***] Balasore, Bolangir, Cuttack, Deogarh, Gajapati, Ganjam and Mayurbhanj.
[****] Bhadrak, Dhenkanal, Jagatsinghpur, Jharsuguda and Rayagada
[*****] Sale at a less rate under compulsion due to poverty.

Identification of Genuine Farmers

2.2.15 To ensure that the benefit of DPS is extended to genuine farmers, the guidelines envisaged purchase of paddy on the basis of Farmers Identity Cards (FIC)/Kissan Credit Cards (KCC)/Certificates from Tehsildar/Revenue authority. Audit observed that:

- Out of seven* Paddy Purchase Centres (PPCs) test checked (one in each test checked district), four PPCs retained photocopies of FIC/KCC whereas three PPCs** did not retain photocopies of FIC/KCC. In Bhadrak district, purchases were made on FICs without photographs of farmers whereas in other districts, FICs with photographs were kept in support of purchases.

Company purchased paddy from farmers without keeping reference to identity cards' numbers.

- In violation of guidelines District Manager, Ganjam, purchased 5445.35 quintals of paddy costing Rs.28.75 lakh at PPC, Kanisi during 2003-04 from different farmers without any reference of FIC and KCC number in the paddy procurement registers.

- In Basudevpur PPC (Bhadrak district), the Company purchased 675.95 quintals of paddy during March to May 2004 from a single farmer having no Identity card. Similarly, 572 quintals of paddy was purchased (April and May 2004) from one person who had possessed a number of cards as against one card to be issued to one farmer.

Poor Infrastructure at Paddy Purchase Centres

2.2.16 Government instructed (October 2003) the Company to open Paddy Purchase Centres (PPC) in suitable areas. The Company deployed its own staff for paddy purchase operation in each PPC under supervision of a Purchasing Officer. Audit noticed that the infrastructure available at PPCs were not adequate (Digital weighing scale of 300 kg. capacity were not installed and moisture meters had no printers to record the test results).

Infrastructure available at PPC were not adequate.

Audit further observed that despite instruction (February 2004) from Company to go round all the procurement centres at least twice a week for supervision and submission of report on functioning of the purchase centres, no regular inspection of PPCs was being conducted by the District Managers.

Appointment of Storage Agents

2.2.17 In the Public Distribution System, Storage Agents (SAs) ensure lifting of stock from FCI depots and their availability in different rural/urban areas. They are appointed by the Company on the basis of recommendation of District Collectors. On being appointed, SAs execute agreement with the

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* Balasore (Balasore), Basudevpur (Bhadrak), G.B. Nagar (Mayurbhanj), Kanisi (Ganjam), Patnagarh (Bolangir), Salipur (Cuttack) and Uppalada (Gajapati).
** Balasore, Kanisi (Ganjam) and Patnagarh (Bolangir)

Company and deposit security money as prescribed. Audit observed the following on test check of 10 districts:

- In violation of the guidelines, in two districts* eight storage agents were appointed for more than one block. Similarly, in Mayurbhanj district, family members of two millers were appointed as SAs for Baripada, Saraskana, Suliapada and Bijitak block though Miller Agent or his family members having commercial link were not to be appointed as SAs.

- Submission of solvency certificate for Rs.10 lakh alongwith application by prospective SAs was a pre-requisite. These were, however, furnished by 61 SAs in Ganjam and Mayurbhanj belatedly, ranging from 26 to 266 days. Solvency certificates were not insisted in four districts** in respect of 92 SAs for the period of extension of agency beyond 2003-04.

- As per the agreement, the Company has right to verify the stock in the godown of SAs at any time. The incidence of surprise physical verification of stock of SAs at regular intervals, however, was not on record.

Loss of interest of Rs.25.20 lakh due to locking of funds with FCI on account of non-lifting/ short-lifting stock by storage agents.

- The agreement provided for forfeiture of security money and suspension of storage agency in case the SAs fail to lift PDS/TPDS stock from FCI godowns by the end of the allotted month. In four districts*** the SAs either failed to lift or short-lifted the quantity of rice against release orders of FCI. No action against the SAs was taken in terms of the agreement. The cost of unlifted/shortlifted stock deposited with FCI were either refunded or adjusted against subsequent release orders belatedly, ranging from 2 to 717 days (beyond permissible 15 days). Non-lifting of stock not only affected PDS but also led to locking up of Company's fund. The loss of interest to the Company due to locking up of funds worked out to Rs.25.20 lakh in the four district offices of the Company for the period from April 2001 to March 2005.

In ARCPSE meeting (14 July 2005), the management assured that action would be taken against the defaulting SAs.

Quality control of PDS rice

2.2.18 The Supreme Court guidelines and Public Distribution System control order issued by Government of India (August 2001) made it mandatory for issue of Fair Average Quality (FAQ) standard rice by FCI. As per Government instruction, stack-wise joint sampling at the FCI depot should be made prior to

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* Bolangir and Mayurbhanj.
** Bolangir, Deogarh, Gajapati and Ganjam
*** Bolangir, Cuttack, Ganjam and Rayagada

issue of stock to the SAs. Audit scrutiny revealed that the pre-sampling was not conducted despite specific instruction of the Government of Orissa as evident from the following:

Distribution of Fair Average Quality rice was not ensured in absence of pre-sampling of rice stock lifted from FCI.

- Samples were being taken out from the stack at the time of lifting of rice. The sample reports were received only after two to three months after the samples were drawn. Thus, the very objective of ensuring the quality aspects of rice distributed was defeated.

- The DM-cum-CSO of Keonjhar and Balasore did not send samples for quality analysis from December 2003 and November 2004 onwards respectively.

- In the district of Bolangir, neither samples had been drawn nor was quality test being done as the post of Assistant Analyst (quality control) was vacant since April 2002.

Thus, the system of not taking sample before the date of lifting and non-receipt of sample analysis report did not ensure distribution of FAQ standard of rice as per Supreme Court guidelines.

Internal Control

2.2.19 Internal Control System is an essential part of the Management activity. An efficient and effective Internal Control System helps the management to achieve the objectives. Audit observed the following deficiencies in Internal Control System:

Company has not prepared Audit and Accounts Manuals.

- The Company has not prepared the Audit Manual and Accounts Manual.

- The Company formed the Audit Committee under Section 292A of the Companies (Amendment) Act, 2000 only on 30 March 2005.

- Surprise verification of stock at different storage points i.e. Storage Agent/MFPS/ Departmental Storage Centre (DSC)/Custom Miller was not done in any of the ten districts test checked.

- Non-reconciliation of quantity issued to SAs against delivery orders with the demand draft received at the district office in each month.

- The Supervising Officers (SO) like Inspector of Supplies (IS), Marketing Inspectors (MI) and Assistant Civil Supplies Officers were not submitting the monthly certificate to the CSO-cum-DM indicating that “the stock meant for PDS has reached the ultimate beneficiaries”

- The MIs, ISs were also not submitting tour details/tour diaries to the concerned CSO/District Collector for appraisal of the enforcement activities and shortfall in performance of the scheme.

- The annual accounts of the Company were in arrears since 2000-01. The delay resulted in non-settlement of subsidy claims under AAY scheme.

Improper maintenance of records at district level led to non-realisation of subsidy claim of Rs.118.19 crore.

- Improper maintenance of books of accounts by the District offices led to submission of incorrect monthly returns which led to non-release of subsidy claim of Rs.118.19 crore up to March 2001 by Government so far (July 2005).

- The Company had not obtained fidelity insurance in respect of Departmental Storage Agents handling stock in DSCs and Storage Assistant-cum-Godown Assistant handling stock and cash in Model Fair Price Shops as a safeguard against future risk.

Surplus fund of Rs.1.94 crore was retained by district offices after completion of paddy procurement operation.

- In 11 out of 20 paddy procurement districts, surplus funds amounting to Rs.1.94 crore (ranging from Rs.0.50 lakh to Rs.36.50 lakh) were retained by DM/PPCs in-charge for 1 to 11 months during December 2003 to January 2005 after completion of paddy procurement operation during KMS 2003-04. This indicated lack of financial control over the units.

Conclusion

The Company, incorporated to ensure availability of subsidised rice under different schemes, could not fulfil its objectives as distribution of allotted stock to the beneficiaries within the same month was not ensured. Low off-take is an area of concern particularly in respect of BPL and BPL specially subsidised scheme. Significant shortfall in off-take of rice was noticed in all the five years. The Company and State Government failed to ascertain the reasons for continuous shortfall in off-take. Instances of distribution being made in excess of requirement were also observed. Deficiencies were noticed in the working of Paddy Purchase Centres (PPCs) and appointment and performance of storage agents. The prevalent quality checking system of rice before distribution to the beneficiaries was far from satisfactory. The Internal Control System in the company was found to be deficient in many areas especially in compilation and maintenance of accounts, monitoring the performance of PDS and ensuring safeguards against risk in handling cash and stock, etc.

Recommendations

- **The Government and Management should analyse the reasons for low off-take of rice and take remedial measures.**

- **The District offices should ensure that the rice is lifted in time so as to facilitate timely distribution to beneficiaries.**

- **Adequate infrastructure facility should be provided at all the PPCs to cope up with the paddy procurement activities.**

- **The system of quality analysis needs toning up.**

- **Internal control should be strengthened in areas like conducting physical verification of stock, maintenance of district level records for claim of subsidy, etc.**

- **The compilation and maintenance of accounts needs to be strengthened.**

2.3 INDUSTRIAL PROMOTION AND INVESTMENT CORPORATION OF ORISSA LIMITED AND ORISSA STATE FINANCIAL CORPORATION

INTERNAL CONTROL SYSTEM AND INTERNAL AUDIT IN STATE FINANCIAL SECTOR UNDERTAKINGS

Highlights

Orissa State Financial Corporation (OSFC) and Industrial Promotion and Investment Corporation of Orissa Limited (IPICOL) did not prepare the budget before the commencement of the year. The reasons for variations between budgeted and actual figures under different heads were not analysed by both the organisations. Budget, therefore, did not serve as an instrument of Internal Control.

(Paragraphs 2.3.1 and 2.3.9)

The objective of Audit Committee in IPICOL was not fulfilled as it reviewed only annual accounts and never discussed any other matter or gave recommendations.

(Paragraph 2.3.11)

Internal Audit in both the Organisations was inadequate. Compliance to the observations of Internal Audit were not ensured. Internal Audit has, therefore, not been able to monitor or ensure strengthening of Internal Control System.

(Paragraph 2.3.12)

Internal control system in respect of appraisal, sanction, disbursement and monitoring of term loans was inadequate in both the organisations.

(Paragraphs 2.3.14 to 2.3.19)

The percentage of recovery in OSFC declined from 13.87 in 2001-02 to 5.09 in 2003-04 which resulted in increase in Non-Performing Assets from 74.60 per cent in 2000-01 to 86.44 per cent in 2003-04. Demand notices were not sent to the loanees at regular interval, wilful defaulters were not identified and stringent recovery measures were not taken to reduce the NPAs.

(Paragraphs 2.3.20 and 2.3.22)

Introduction

2.3.1 Internal Control is a management tool used to provide reasonable assurance that management's objectives are being achieved in an efficient, effective and adequate manner. A good system of Internal Control should comprise, inter alia, proper allocation of functional responsibilities within the organisation, proper accounting data, efficiency in operations and safeguarding of assets, quality of personnel commensurate with their responsibilities and duties and review the work of one individual by another whereby possibility of fraud or error in the absence of collusion is minimised.

Internal Control in the Government financial institutions assumes more significance in view of the fact that these institutions are to appraise properly all loan applications submitted so as to minimise the risk of default by the borrowers.

There is one Government company i.e. Industrial Promotion and Investment Corporation of Orissa Limited (IPICOL) and a Statutory Corporation i.e. Orissa State Financial Corporation (OSFC) under financial sector which were selected for review. OSFC was established in March 1956 under State Financial Corporations Act, 1951 (SFC Act) with a view to provide financial assistance to medium and small industries. IPICOL was incorporated under Companies Act, 1956 in April 1973 with the main objective of ensuring rapid industrialisation of the State by providing financial and technical assistance to develop medium and large industries.

Scope of Audit

2.3.2 A sectoral review on Recovery Performance of OSFC and IPICOL was included in the Report of the Comptroller and Auditor General of India (Commercial) for the year ended 31 March 2000. The Report has not been discussed by COPU so far (October 2005).

The present review conducted during January to April 2005, examines the mechanism of Internal Control Systems prevalent in these two organisations during 2000-01 to 2004-05.

2.3.3 Audit findings as a result of review on the performance and working of the organisations were reported to Management/Government in June 2005 with a specific request to attend the meeting of Audit Review Committee for State Public Sector Enterprises (ARCPSE) so that the view point of Management/Government was taken into account before finalising the review. The meeting of ARCPSE was held on 14 July 2005 and attended by the Joint Secretary, Industries Department, Government of Orissa, OSFC was represented by Managing Director and IPICOL was represented by its Company Secretary and two General Managers. The views expressed by the members have been taken into account during finalisation of the review.

Audit objectives

2.3.4 Performance audit of Internal Control in respect of lending activities of IPICOL and OSFC was conducted with a view to assess whether;

- the institutions executed different term lending activities in a prudent manner.
- the Internal Control System of the institutions were adequate and effective in the matters relating to appraisal and sanction, disbursement and monitoring, demand and recovery and management of Non-Performing Assets (NPA) and other related activities.

Audit criteria

2.3.5 Audit adopted the following criteria for examination of above audit objectives with a view to see whether:

- appraisals were made properly before sanction of loans and sanction orders included standard terms and conditions.
- documentation was made before disbursement and also as per terms and conditions of sanction order.
- timely issue of demand notices, collection and accounting of monthly/quarterly instalments.
- adoption of appropriate recovery measures in case of default cases.
- identification of wilful defaulters and analysis of default cases.
- the decision of Board of Directors, executive instructions and circulars issued from time to time in respect of the above activities were considered as criteria for assessing the performance with reference to relevant issues/activities.

Audit methodology

2.3.6 The activities/transactions of IPICOL (Head Office) and OSFC (Head Office and eight out of 18 branches) were covered.

- Transactions of 68 cases out of 151 cases were examined in respect of IPICOL.
- The audit coverage in respect of OSFC was 10 per cent of the sanctions of each year besides other cases at random.
- The correspondence made with SIDBI/IDBI, Government of Orissa and other agencies, instructions as well as communications issued from Head Office were examined.
- Collection of data and gathering evidence was made from minutes of monthly returns of Default and Disposal Advisory Committee (DDAC) meetings, proceedings of Branch Officers' meetings, Annual Accounts, different statistics relating to loanees, etc.
- The minutes and agenda papers of meetings of Board of Directors for the period under audit were also examined.

Audit findings

2.3.7 The mechanism of Internal Control System prevalent in the IPICOL and OSFC were reviewed and irregularities noticed are discussed in succeeding paragraphs.

Tools of Internal Control and their role

Budgetary Control

2.3.8 Budget is a quantitative financial expression of a programme of measure planned for a given period. The Annual Budget is drawn up with a view to plan future operations and to make ex-post-facto checks on the results obtained. Timely preparation of Budget and analysis of the variations noticed in the actual execution serve the purpose of Internal Control.

2.3.9 IPICOL and OSFC prepared Annual Budget for each financial year. Besides, OSFC prepared Business Plan and Resource Forecasting (BPRF) for submission to SIDBI; based on which it borrowed funds from financial institutions, banks, and issued bonds through inter-corporate deposits, depending on the requirement.

Following deficiencies in regard to preparation and analysis of budget were noticed in Audit:

- There had been delay in preparation of annual budget between three and six months in respect of IPICOL and from one to six months in respect of OSFC.

  IPICOL attributed (July 2005) the reasons for delay in preparation of budget to delay in approval of restructuring proposal by IDBI/SIDBI. The reply is not tenable because budget could have been prepared well in advance based on the previous year's cash flow. Delay in preparation of budget for want of approval of restructuring proposal was, therefore, not an acceptable reason.

- Major variations were noticed between the budgeted and actual figures of IPICOL in respect of items like recovery of outstanding loans (interest from 10 to 45 per cent), disinvestment of shares (from (-)180 to 100 per cent), capital expenditure (from 71 to 95 per cent), investment in loans (from 4 to 65 per cent), etc. in the five years ending 2004-05. IPICOL, however, did not analyse the reasons for such variations.

  Similarly, major variations were also noticed between the budgeted and actual figures of revenue budget of OSFC in respect of items like salary (from 6 to 14 per cent), leave encashment (from (-)7 to 95 per cent), gratuity (from (-)4 to 94 per cent), professional fees and expenses (from (-)1 to 460 per cent), ex-gratia (from (-)9 to 94 per cent), etc. in the four years ending 2004-05. OSFC, however, did not analyse the reasons of such variations.

  Thus, there was no mechanism for analysis of variations in both the organisations. This further indicated that the projections in the budget were not realistic and both IPICOL and OSFC were not properly using the budgets as a tool of Internal Control.

Functional Manuals

Functional Manuals lost their relevance as these were not updated for the last 11 – 20 years.

2.3.10 Functional manuals provide guidance to the personnel in-charge of appraisal, disbursement and recovery of loans and also to proceed for legal action as per terms and conditions. The manuals prepared by IPICOL and OSFC in 1984-85 and 1993-94 respectively have not been updated (June 2005). The activities were, however, managed on executive instructions and circulars issued from time to time. Thus, Functional Manuals lost their relevance as these were not updated for the last 11 – 20 years.

Audit Committee

2.3.11 As required under Section 292-A of the Companies (Amendment) Act, 2000, every public company having paid-up capital of not less than Rs.5 crore shall form an Audit Committee. The Audit Committee should discuss with the Auditors periodically about Internal Control Systems, the scope of audit including the observations of the auditors and review the half yearly and annual financial statements before submission to the Board and also ensure compliance of Internal Control Systems.

Audit observed that:

- IPICOL constituted an Audit Committee in March 2001. The Audit Committee meetings were held only twice since its constitution. In none of the meetings, Internal Control prevailing in the organisation, its adequacy and compliance were discussed. Neither statutory auditor nor internal auditor participated in both the meetings. The objectives of Audit Committee was, thus, not fulfilled as the Committee reviewed only Annual Accounts and had not discussed any other matter nor given recommendations for consideration of the Board.

The objective of Audit Committee was not fulfilled as it reviewed only annual accounts and never discussed any other matter or gave recommendations.

- OSFC, however, had not formed an Audit Committee. The management in ARCPSE meeting agreed to constitute the Audit Committee.

Internal Audit

2.3.12 Internal Audit is an appraisal activity established in an entity as a service to the entity. Its functions, inter alia, include examining, evaluating and monitoring the adequacy and effectiveness of the accounting and Internal Control System. Audit observed that Internal Audit which is an important part of Internal Control System was inadequate in both the entities.

Following further irregularities were noticed:

- IPICOL has no internal audit department. Internal Audit was being conducted by a firm of Chartered Accountants. Further, there was no direction to the Chartered Accountants for the areas of audit scrutiny. The Company has also not prepared any Internal Audit Manual.

Coverage of Internal Audit in both the Institutions were not adequate. Moreover, there was no proper system to monitor the Internal Audit Reports.

- OSFC compiled its Internal Audit Manual in August 1994 which was, however, not updated. Audit noticed that only branch offices were audited by the Internal Audit Wing. The transaction of Head Office had not been audited by the Internal Audit Wing since 1987-88 though high value sanctions (above Rs.10 lakh) were made at Head Office and the percentage of sanction of loan by Head Office during the period 2000-01 to 2003-04 ranged between 60 and 79 per cent.

- Compliance to Internal Audit reports were not furnished by concerned branches/departments in both the organisations.

- Internal Audit reports were not placed before the Board of Directors.

  Other irregularities noticed on Internal Control in IPICOL and OSFC are given in **Annexure-11**.

OSFC replied (July 2005) that the Corporation was seriously contemplating to strengthen Internal Audit Department by infusing professionally qualified personnel and re-evaluate the adequacy and efficacy of Internal Control System and posted one DGM in charge of Internal Audit Wing.

IPICOL replied (July 2005) that steps were being taken to obtain written reply from the concerned divisional heads and to place before Audit Committee. The fact, however, remains that the Company has not taken any action in this regard till date (July 2005).

Internal Control in major activities

2.3.13 The lending function involves following three major activities;

- Appraisal and sanction.
- Disbursement (obtaining security and documentation) and monitoring.
- Demand and recovery.

Internal Control in respect of these functions are discussed in the succeeding paragraphs.

Term Loans

Appraisal and Sanction

2.3.14 Appraisal is the critical examination of technical, financial and commercial feasibility of a project and judging the managerial competence of promoters to implement and run the project successfully. Appraisal of projects is necessary to determine whether it would be worthwhile to make investment in those projects. The quality of appraisal depends on the degree of accuracy of estimates on which the project is based.

IPICOL

- The Company instead of preparing its own project appraisal report at the time of sanctioning of a loan relied on the feasibility report and information submitted by the promoters.
- Credit risk analysis ensures objective appraisal of the project risks and minimises the level of subjectivity involved in lending decisions. The Company, however, did not analyse credit risk for appraisal of project.
- The assumptions of the entrepreneurs, viz. projections of market demand, cost of production, cash flow, etc. based on which the financial assistance was sanctioned, were not subjected to critical evaluation with reference to reliable external data.

During the period covered under review, in a test check of 19 cases out of 57 cases, the following deficiencies were noticed in appraisal system.

Sl. No	Nature of deficiencies in appraisal system	No. of cases of deficiency/ total checked	Percen-tage to cases checked
1.	Credit worthiness of applicant was not ascertained from banks/financial institutions	18/19	95
2.	Projections in the applications were accepted without critical scrutiny	10/19	53
3.	Missing critical/vital information in appraisal format	9/19	47
4.	Promoters' background/track record not evaluated properly	8/19	42
5.	Improper technical appraisal	6/19	32
6.	Improper commercial/marketing appraisal	11/19	58
7.	Appraisal containing plain statements without adequate supporting documents	11/19	58
8.	Strength, Weakness, Opportunities and Threat (SWOT) analysis not done properly	19/19	100
9.	Audited accounts of existing units not verified	9/19	47
10.	Ineligible loanee	7/19	37
11.	Sanction of term loan beyond the schematic provisions	5/19	26

From the table, it would be observed that the project appraisal system in IPICOL was not effective and needs improvement.

Internal Control system in respect of appraisal, sanction, disbursement, monitoring, demand and recovery of term loans was inadequate and needs improvement.

IPICOL replied (July 2005) that new proposals were cleared by Internal Advisory Committee (IAC) which examined credit worthiness of the applicants. The reply is not tenable as irrespective of the promoters whether new or old credit worthiness of the promoters was to be assessed to ensure the safety of loan. The proposals examined by Audit comprises both old and new cases. Neither any reference regarding examination by IAC nor any sensitivity analysis was made in the appraisal memorandum of these cases. It is relevant to mention that in 12 of the above cases, there were overdue loan installments. This indicated that credit worthiness needs re-examination for existing loanees and the policy of the Company needs revision.

On sanction of term loan beyond schematic provision, IPICOL replied that the comments were unrealistic. This is, however, not a fact as Audit had pointed out only the cases (26 per cent) where deviations were made.

OSFC

2.3.15 Several instances of failure in area of appraisal, follow-up and recovery in the Internal Control System were pointed out in the Report of the Comptroller and Auditor General of India (Commercial) for the year ended 31 March 2000 on which action was yet to be taken by the Corporation.

During the period covered under review, in a test check of 46 cases the following deficiencies were noticed in appraisal system:

Sl. No.	Nature of deficiencies	No. of cases of deficiencies
1.	Credit worthiness of the applicant was not ascertained from banks/financial institution.	14
2.	Suppression of facts in appraisal memorandum	4
3.	Promoters' background/track record not evaluated properly.	14
4.	Improper technical/commercial appraisal	6
5.	Audited Accounts of existing units not verified	1
6.	Statutory clearance not obtained at the time of appraisal	2
7.	Release of subsidy on false certification of the Branch Manager	2
8.	Violation of Government/SIDBI guidelines	4
9.	Inadequate pre-sanction inspection	10
10.	Sanction of loan without /inadequate collateral and over-valuation of collateral at the time of sanction of loan	12
11.	Absence of co-ordination between IPICOL and OSFC resulted in undue benefit to the loanees	2
12.	Sanction of cyclone loan more than the assets damaged/loanees' requirement	4

OSFC replied (July 2005) that there had been continuous effort to improve all the areas of appraisal for better effectiveness.

Disbursement and Monitoring of Term Loans

Loan Disbursement

IPICOL

2.3.16 The following deficiencies were noticed in the disbursement.

Sl. No.	Nature of deficiency	No. of cases of deficiency/ total checked	Percentage to cases checked
1.	Non-fulfillment of terms of sanction before first disbursement	12/19	63
2.	Non-submission of documents for expenditure made by the loanee	12/19	63
3.	Deviation from approved plan without prior sanction/ diversion of funds	11/19	58
4.	Non-preparation of Project Completion Report	19/19	100
5.	Non-verification of audited accounts during implementation and moratorium period	9/19	47
6.	Adjustment of earlier loan	9/19	47

Sl. No.	Nature of deficiency	No. of cases of deficiency/ total checked	Percentage to cases checked
7.	Inconsistent invoice/bills	10/19	53
8.	Disbursement at one stretch in violation of sanction	2/19	11
9.	More repayment period than the norm	4/19	21

IPICOL stated (July 2005) that disbursements were made on reimbursement basis and certified by Chartered Accountants. The reply is not tenable in view of the fact that the supporting documents of expenditure on procurement of plant and machinery, raw materials, inventories, etc. were not enclosed to the Chartered Accountants' certificate.

OSFC

The following deficiencies were noticed in loan disbursement in 46 cases:

Sl. No.	Nature of deficiencies	No. of cases of deficiencies	Percentage to cases checked
1.	Non fulfillment of terms of sanction before first disbursement	11	24
2.	Diversion of fund	2	4
3.	Non-insurance of assets financed in the joint names of the loanees and the Corporation	40	87
4.	Project not implemented	4	9
5.	No periodical inspection resulted in shifting of machineries by the loanee	10	22

In respect of Sl. No.1, OSFC stated (July 2005) that in order to support speedy implementation of the project, conditions were waived/relaxed in some cases. The reply is not tenable as in all the cases of relaxation/waiver, projects were not completed in time and the loanees were defaulters; the relaxation made, therefore, was detrimental to the interest of the Corporation. Management accepted other observations of Audit.

Monitoring System

The scrutiny of system of monitoring revealed the following deficiencies.

Non-preparation of project completion reports (IPICOL and OSFC)

2.3.17 A monitoring system requiring Project Completion Report after the final disbursement of term loan contains vital information on whether the assets created are as stipulated at the time of sanction and serves as an important evidence for creation of assets. The institutions do not have such a monitoring system.

Improper Inspection reports (IPICOL and OSFC)

2.3.18 Following deficiencies were noticed:

- There was no standard format or written guidelines in IPICOL for preparation of Inspection Report at different stages during implementation of project.
- Inspection Reports did not contain the vital details about actual progress of work at each stage such as land acquisition and development, the building plans, progress of construction, procurement of machinery and commissioning before disbursement.
- Register for inspection of the assisted units was not maintained. Even a check list was not designed for use of inspecting officers visiting assisted units.

Non-obtaining of audited accounts

2.3.19 In IPICOL, the details of production, sales and audited accounts were not obtained each year to ascertain the health of the assisted units and to take action against the defaulters. Even a condition regarding furnishing of annual financial statement was not existing in the sanction letter/loan agreement. The Company sought for latest financial statements only when the borrowing unit turned defaulter or asked for fresh loan.

In respect of OSFC, though a clause to this effect existed in loan agreement/sanction letter, the audited accounts were not obtained.

Demand and Recovery

2.3.20 Recovery of loans and advances is one of the important operations in order to plough back the funds for recycling it for development of industrial activity in the State.

OSFC

OSFC raised demands for Rs.4796.18 crore (principal Rs.1590.71 crore and interest Rs.3205.47 crore) and recovered Rs.457.43 crore (principal: Rs.216.67 crore and interest: Rs.240.76 crore) during the last five years ending March 2005. The percentage of recovery declined from 13.87 in 2001-02 to 5.09 in 2003-04. This increased to 20.28 per cent in 2004-05.

Due to poor recovery, OSFC could not repay the dues of Rs.470.11 crore (including current dues of Rs.170.16 crore) in respect of loans/bonds raised from RBI, IDBI, SIDBI and others outstanding as on 31 March 2005.

Due to decline in recovery, refinance from SIDBI was reduced and thereby lending business of OSFC was reduced from Rs.117.36 crore in 2000-01 to Rs.3.64 crore in 2004-05.

SIDBI circulated a guideline to all SFCs in May 2002 to categorise the SFCs into three viz. A*, B** and C*** (others) for refinance and prescribed the criteria for availment of refinance loan. OSFC was placed in category 'C', thereby the Corporation failed to get the refinance from SIDBI for 2003-04 which adversely affected the inflow of fund. As a result, lending business was reduced from Rs.117.36 crore in 2000-01 to Rs.3.64 crore in 2004-05.

Following deficiencies were noticed in OSFC in demand and recovery procedure in respect of 89 cases test checked in audit:

Sl. No.	Nature of deficiencies	No. of cases of deficiencies
1.	Quarterly interest demand notice not served	89
2.	No periodical inspection of assisted units to assess the status of the unit	6
3.	Not invoking collateral/ personal guarantee	2
4.	Delay in seizure of the unit	77
5.	Delay in realisation of dues through Court of law	18
6.	Subsidy not recovered	2
7.	Non seizure of closed unit resulted in delay in realisation of dues through Court of law	36
8.	Non-collection of Sales Tax dues from the hire purchase loanees where last instalment has been paid	9
9.	Non-realisation of dues from the political persons	27
10.	Non-realisation of dues sanctioned and disbursed against service guarantee	5
11.	Despite default in repayment of loan dues, recommendation for Industrial Policy Resolution benefit	5
12.	Extension of undue benefit	5

Audit further observed the following irregularities:

- Confirmation of balances outstanding against the loanees has not been obtained so far (March 2005).
- The Corporation failed to furnish the list of units closed and dues outstanding against them as on 31 March 2004, as no data base was maintained.
- Out of 350 cases (Cuttack, Berhampur, Balasore and Bhubaneswar branches) where outstanding in each case was more than Rs.50 lakh, in 93 cases the units were closed and an amount of Rs.133.82 crore

[*] A Category: Regular in payment of SIDBI/IDBI dues, achieving the target fixed under business plan, improving overall performance and able to generate plough back of at least 25 per cent of their annual requirement.
[**] B Category: No overdue to SIDBI/IDBI but not achieved the target under business plan.
[***] C Category: Default of SIDBI/IDBI and require financial restructuring.

remained outstanding against them. The recovery measures under Section 31 and 32 (G) of SFC Act, 1951 have not been initiated by the Corporation.

- As per SIDBI guidelines, the maximum limit of loan assistance to a unit was Rs.1.20 crore. The Corporation, however, extended loans amounting to Rs.33.73 crore to 19 units between Rs.1.23 crore and Rs.3.26 crore. All these units defaulted towards payment of dues of Rs.66.51 crore;

- As per the system followed by the Corporation, the Branch Officer was required to inspect the vehicles/units once in a month to verify the assets of the unit. Test check of records of six branches* revealed that due to lack of control in periodical inspection, 424 vehicles against whom an amount of Rs.26.51 crore remained outstanding, were reported missing as on 31 March 2005. Further, 392 units/industries were missing against whom an amount of Rs.18.42 crore remained outstanding. It was further noticed that the Inspecting Officers were certifying that the vehicles were missing without any enquiry from Regional Transport Offices.

Reconciliation of loan ledgers of OSFC

2.3.21 The accounts department is required to update the Loan accounts and send Demand Notices to the loanees monthly/quarterly as the case may be. The loan ledgers, however, were not updated and demand notices were not issued in time.

Audit observed that:

- out of 432 units at Cuttack, Balasore, Bhubaneswar and Rourkela branches in 223 cases interest calculation was not done and posted in the Loan Ledger and Demand Notices were not issued. The delay ranged between three months and more than 10 years.

- an amount of Rs.312.71 lakh received from Deposit Insurance & Credit Guarantee Corporation (DICGC) awaiting adjustment in the respective loanee accounts since 1997-98 due to lack of reconciliation (June 2005).

* Balasore, Berhampur, Bhubaneswar, Cuttack, Paradeep and Rourkela.

One Time Settlement (OTS)

OSFC

OSFC did not identify wilful default, fraud and malfeasance cases before finalising OTS cases.

2.3.22 As a result of weak Internal Control System, the percentage of Non-Performing Assets (NPA) in OSFC increased from 74.60 in 2000-01 to 86.44 in 2003-04. The high percentage of NPA was due to reasons like inadequate appraisal, non-review and non-monitoring of assets. Audit scrutiny revealed that the demand notices (principal and interest) were not sent to the loanees at regular interval, wilful defaulters were not identified and stringent recovery measures were not taken to reduce the NPA. OSFC failed to take effective action for recovery of its dues either from the loanees or from the guarantors which resulted in increase of NPA.

In order to bring down the huge NPA, the Corporation introduced One Time Settlement/Loan Settlement Scheme from 1992-93 onwards and the schemes were modified from time to time. Audit scrutiny of OTS-03 and OTS-04 revealed the following:

- Before finalisation of cases under OTS, OSFC was to identify the wilful defaulter, fraud and malfeasance cases. This was, however, not done. Audit scrutiny of eight OTS cases (out of 103 cases) under Berhampur unit revealed that while finalising the cases the Inspecting Officers certified that the cases were not covered under wilful defaulter, fraud and malfeasance. The certificates were, however, given without supporting documents, financial statements, etc. The waived amount was Rs.87.20 lakh.

- In respect of 44 cases under Balasore (13 out of 105) and Bhubaneswar (31 out of 117) branch, OSFC waived an amount of Rs.29.30 lakh towards principal amount contrary to provisions under OTS-04. The reasons for such relaxation of scheme were not on record.

OSFC stated (July 2005) that there was provision for waiver of principal to the extent of 25 to 50 per cent in cases related to outstanding below Rs.25,000. The reply is not tenable as the audit pointed out cases of principal amount outstanding exceeding Rs.25,000 which was in violation of the scheme.

Management of assets taken over

OSFC

2.3.23 The Corporation constituted (December 1978) the Default Advisory Committee (DAC) {subsequently named as Default and Disposal Advisory Committee (DDAC)} under Section 21 of SFC Act, 1951 to dispose the seized assets to recover the defaulted dues from the loanee.

Audit observed that:

- The business was transacted without quorum in 23 DDAC meetings during the period from March 2000 to February 2004 and the decisions were taken by single member.

- The proceedings of committee were not placed before the Board for the year 2000-01 to 2004-05 as provided in the Orissa State Financial Corporation General Regulations.

Recovery under Section 29 of SFC Act, 1951

IPICOL

2.3.24 The provisions of Section 29 of the SFC Act regarding seizure of assets of defaulting units were extended to IPICOL by Central Government in December 1986. In exercise of such powers, IPICOL seized 16 units during five years period ending 31 March 2005. Nine of these units were sold, four units were partially sold and other three units were yet to be disposed (June 2005). Audit observed that:

- IPICOL had not maintained any register/list of units seized and security available against them.

- In case of two units, assets were partially seized on the request of the unit. Action was, however, not taken for realisation of balance loan of Rs.6.95 crore.

- In case of one unit, only partial seizure of collateral security was made in June 2004. At the time of seizure, the Company observed that as against the actual value of Rs.14.40 lakh, the security was overvalued by Rs.37.44 lakh at the time of sanction of loan. Responsibility for the lapses in sanction was not fixed.

Delay in initiating action for recovery of balance dues of Rs.3.92 crore by IPICOL in respect of a unit after seizure by OSFC (jointly financed by OSFC and IPICOL).

- In case of a unit seized and sold in 1998 by OSFC, the balance outstanding remained at Rs.3.92 crore after apportionment of sale proceeds. IPICOL initiated seizure of the collateral security only after four years i.e. in 2002. The value of the land was only Rs.1.11 lakh. Thus, the prospect of recovery appears remote.

- Loan Ledger of seized units were not updated.

OSFC

2.3.25 Audit observed that:

- Test check of 31 seized and released units of OSFC between July 2001 and August 2003 revealed that an amount of Rs.2.35 crore was overdue against those 31 loanees since release of the units. It was observed that due to absence of any detailed investigation and background of the promoters from the Banks/Financial Institutions and inadequate monitoring, the position did not improve and those new loanees also became defaulter.

- Neither Head Office nor Branches, however, filed cases under Section 31 of SFC Act, 1951 from June 2002 to March 2005. Thus, this recovery measure was not put to use since June 2002.

Cash Management Control

Cash and Bank

2.3.26 As per the procedure followed by OSFC, cash and cheques received from the loanees are to be deposited into the bank on the same day or the next day. The Zonal Officer is not authorised to spend from the collections. The officer in-charge receiving the cash from loanees was not depositing cash in full in the bank either on the same day or the next day in Paradeep Zonal Office. Scrutiny of records for the period from April 2002 to March 2005 (up to 7 March 2005) revealed that on 331 occasions part deposits were made in the bank and balance amount was retained. The retention of cash ranged between Rs.2000 to Rs.2,40,000 with retention period varied from one day to 186 days.

The irregularities/omissions in cash books of Berhampur, Kendrapara, Paradeep and Chandikhol branches recovery cell noticed were as given in **Annexure-12**.

Cash Insurance

2.3.27 In order to prevent loss of cash on account of theft, fire, flood, embezzlement etc., insurance of cash is required. IPICOL and OSFC have not made any approved policy for cash insurance. The following deficiencies were noticed:

- Inadequate insurance policy was made for cash in safe and cash in transit.

- Insurance policies were not renewed timely.

- Fidelity insurance meant to safeguard the interest of the Corporation was not taken in OSFC and not renewed in time in IPICOL.

Money Receipt Books

2.3.28 Test check of Money Receipt Books of Berhampur and Balasore branches of OSFC for five years ending 31 March 2005 revealed that:

- Money Receipt Books were not issued serially.

- All the columns of MR issue register were not filled up.
- Old damaged money receipt books, partially used old money receipt book were not cancelled.
- MR Books No.3991, 0993, 0586, 7760, 5814, 5815, 5811 and MR No.352799 and 352800 of Book No.3528 were missing from Balasore branch.

Conclusion

Budgets of both the organisations have not been prepared before the commencement of the financial year, besides no analysis of the variation between budgeted and actual figures under different heads was done at the time of preparation of budget as a result future operations could not be projected. Budget, therefore, did not serve as an instrument of Internal Control. Functional Manuals lost their relevance as these have not been updated for the last 11-20 years.

The objective of the Audit Committee of IPICOL has not been fulfilled, as other than review of Annual Accounts, it has not reviewed and given recommendations on any other matter for consideration of the Board. Internal Audit in both the organisations was inadequate and compliance to the observations of the Internal Audit were not ensured. Internal Audit, has therefore, not been able to monitor or ensure strengthening of Internal Control Systems.

Internal Control in respect of appraisal, sanction, disbursement, monitoring, demand and recovery of term loans was weak which resulted in increase in NPA and accumulation of dues. Deficiencies were also noticed in Internal Control System in maintenance of cash book and bank accounts including instances of temporary misappropriation of cash and non-reconciliation of Bank accounts.

Recommendations

- **Both the organisations should prepare their budgets before commencement of the financial year and after analysing the variations between budgeted and actual figures under various heads;**
- **Functional Manuals need to be updated to ensure adoption of the latest best practices in respect of their organisations;**
- **In case of IPICOL, Audit Committee meetings should be conducted periodically and the committee should discuss with the auditor, Internal Control Systems, scope of audit including the**

observations of auditors in addition to review of half-yearly and Annual Financial Statements before submission to Board;

- **In respect of IPICOL, scope of Internal Audit should be clearly defined and compliance to the Internal Audit Reports should be ensured and placed before the Board.**

- **In OSFC, transactions of Head Office should be audited by Internal Audit in addition to branches. Compliance to the Internal Audit Reports should be ensured and the Internal Audit Reports should be placed before the Board.**

- **Both the organisations should critically examine technical, financial and commercial feasibility of the projects and ensure creditworthiness of the promoters before sanctioning of loans.**

- **Both the organisations should make disbursement as per the terms of the sanction order and prepare project completion reports to ensure that assets have been created.**

- **The system of handling of cash and bank in OSFC should be strengthened by periodical physical verification of cash, timely transfer of cash balance to Head Office, reconciliation of Bank accounts, adequate cash insurance and timely renewal of cash insurance policy.**